

AD-A106 839 GENERAL ACCOUNTING OFFICE WASHINGTON DC COMMUNITY AN--ETC F/6 5/4  
SBA'S 7(J) MANAGEMENT ASSISTANCE PROGRAM; CHANGES NEEDED TO IMP--ETC(U)  
SEP 81  
UNCLASSIFIED GAO/CED-81-149 NL

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LEVEL II

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BY THE COMPTROLLER GENERAL

# Report To The Congress OF THE UNITED STATES

6

## SBA's 7(j) Management Assistance Program: Changes Needed To Improve Efficiency And Effectiveness .

The Small Business Administration provides management and technical assistance to small businesses through two programs authorized under section 7(j) of the Small Business Act.

Under one program, SBA relies on outside contractors to provide management and technical assistance. GAO noted instances where contractor costs were excessive and less costly inhouse resources could have been used. Under the other program, GAO found that SBA had not established an overall plan defining specific goals and objectives. As a result, several projects were funded for services that

- fell outside the program's legislative objectives
- benefited only one or a few firms, and
- SBA should have performed itself.

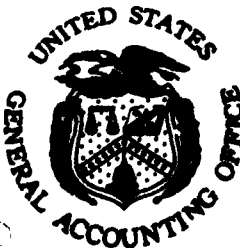
GAO is making a number of recommendations to correct these and other problems.

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-201727

To the President of the Senate and the  
Speaker of the House of Representatives

This report, which was prepared pursuant to Public Law 95-507, discusses the Small Business Administration's 7(j) Management Assistance Program. The report discusses the need for better program planning and management and recommends that the Small Business Administration make a number of improvements.

We are also sending copies of this report to the Director, Office of Management and Budget; the Administrator, Small Business Administration; and other interested parties.

*Milton J. Forster*  
Comptroller General  
of the United States

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COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

SBA'S 7(j) MANAGEMENT  
ASSISTANCE PROGRAM:  
CHANGES NEEDED TO IMPROVE  
EFFICIENCY AND EFFECTIVENESS

D I G E S T

Administrative problems have limited the impact of the Small Business Administration's (SBA's) 7(j) Management Assistance Program. For example, program resources have not been well coordinated with other SBA programs and funds targeted for 8(a) firms were used for questionable purposes. SBA needs to correct these and other deficiencies to improve program efficiency and effectiveness.

This report is the last in a series GAO has issued pursuant to Public Law 95-507 which required GAO to evaluate certain SBA programs.

HISTORY AND PURPOSE OF  
THE 7(j) PROGRAM

The 7(j) program is part of a larger SBA effort to help socially and/or economically disadvantaged people create and maintain small businesses by improving their technical and management skills.

The program is divided into two segments commonly referred to as sections 7(j)(1-9) and 7(j)(10). Section 7(j)(1-9), which originated in 1967 with the Economic Opportunity Act of 1964, as amended, authorizes SBA to contract with consulting firms that agree to be "on call" to provide counseling and general management assistance to eligible individuals referred to them by SBA. Section 7(j)(10), which was created in October 1978 by Public Law 95-507, authorizes SBA to provide supplementary management and technical assistance exclusively to firms participating in SBA's 8(a) program. The 8(a) program is designed to channel noncompetitive Federal contracts to disadvantaged small businesses to help them become self-sufficient. (See pp. 1 to 5.)

Funds allocated to the 7(j) program have risen over the years from about \$1.2 million in 1971 to about \$10 million in 1981. Likewise, the number of small business owners served has grown from 1,040 clients in 1971 to an estimated 6,840 clients in 1981.

SBA's 7(j)(1-9) CALL CONTRACTING  
PROGRAM NEEDS IMPROVEMENT

GAO found that the Call Contracting Program has not been effectively administered. Consequently, program funds have not been used in the most efficient manner, resulting in fewer clients receiving management and technical assistance than would otherwise have been possible. Specific problems identified included:

- Using call contractors when less expensive agency resources were available. For example, SBA paid \$38,659 to a call contractor to conduct a seminar for women on how to prepare a loan package. Approximately \$21,000 of this contract was for services that SBA had the inhouse capability to provide. (See pp. 7 to 11.)
- Applying different contracting methods without reasonable controls over rates. GAO found wide variations in costs between competitive and noncompetitive 8(a) call contracts. A sample of 40 contracts from fiscal years 1978 through 1980 disclosed that noncompetitive 8(a) contracts were on the average 49 percent more expensive than competitively awarded contracts during those last 2 years. However, little difference existed between the time taken to complete the work or the usefulness of the services provided under either contracting method. (See pp. 11 to 14.)
- Allowing call contractors to make excessive use of subcontractors. SBA's allowable subcontracting limit of 50 percent of the contract work was exceeded for 14 of the 40 contracts reviewed. (See pp. 14 and 15.)

MIXED OPINIONS ON THE VALUE  
OF CALL-CONTRACTING SERVICES

Small business owners had varying opinions regarding the value of the advice call contractors gave them. GAO, through the use of a questionnaire, interviewed a random sample of 302 owners and found that 34 percent felt the call contractor's report was of very great or great value, while 23 percent indicated that it was of little or no use. The remaining businesses either indicated that the report was of moderate or some value or chose not to respond to the question. Similarly, when asked how much of the advice was actually implemented,

34 percent stated that they tried to implement all or most of the advice, while 25 percent stated that they acted on half or less. Another 19 percent said that few or no changes were made and the remainder did not respond. (See pp. 16 and 17.)

SBA procedures require agency personnel to contact all businesses receiving call-contracting assistance to ascertain the value of the services provided. However, only 54 percent of the 302 clients GAO interviewed said that SBA contacted them about the results of the contractor's work. Thirty-four percent said that SBA did not contact them, 11 percent were uncertain if SBA followed up, and the remainder did not respond. (See p. 16.)

#### THE 7(j)(10) PROGRAM LACKS DIRECTION

Although 27 projects totaling about \$4 million were funded by SBA's central office under the 7(j)(10) program in fiscal years 1979 and 1980, SBA has not developed a plan for administering the program nor has it established specific program goals, objectives, or priorities. The lack of planning weakened the overall administration of the program and led to subjective funding decisions and a reliance on unsolicited proposals to satisfy program requirements. The lack of planning also contributed to the award of contracts which covered a broad range of activities and moved the program in scattered directions. (See pp. 20 to 23.)

GAO also found that while 15 of the 27 projects funded during this period effectively furthered the program, 12 did not. Problems regarding these 12 fell into three categories:

- Projects which were not within the legislative objectives of the 7(j)(10) program.
- Costly projects which benefited only one or a few 8(a) firms, thereby limiting the number of firms the program could serve.
- Projects which SBA should have performed itself.

For example, SEA gave the city of Buffalo \$200,000 to fund a project aimed at reducing unemployment in that area. Although the 7(j)(10)

program was created to benefit only 8(a) firms, as of June 1981, no 8(a) firms had received any benefit under this project. In addition, the SBA official responsible for administering the project agreed that it was not within the scope of the 7(j)(10) program. The project, however, was within the purposes of 7(j)(1-9). As such, the use of 7(j)(10) funds for this project was a matter of agency policy and management. (See pp. 23 and 24.)

SBA also funded six costly projects which benefited only nine 8(a) firms. Two of these projects, which assisted one 8(a) firm, amounted to \$395,000. Since receiving the 7(j)(10) assistance, the firm has been awarded only one 8(a) contract for about \$400,000. (See pp. 25 to 27.)

In addition, SBA supplemented internal resources by awarding several contracts to perform functions it should have performed. For instance, SBA contracted with a consultant in September 1979 to develop a manual regarding SBA's 8(a) special procurement program. GAO compared the completed manual with existing SBA standard operating procedures and found much duplication. (See pp. 28 to 30.)

Aside from using 7(j)(10) funds for questionable purposes, SBA also did not adequately monitor contracts awarded under the program. In GAO's opinion, this resulted from the lack of procedures describing the duties of individuals responsible for monitoring these contracts. (See p. 30.)

GAO believes that the problems associated with the 7(j)(10) program were the result of inadequate planning and limited monitoring. SBA has recognized and is now addressing some of the shortcomings in the 7(j)(10) program. However, additional improvements are needed to strengthen program planning and monitoring efforts.

#### RECOMMENDATIONS TO THE SBA ADMINISTRATOR

The SBA Administrator should take several actions to strengthen the management of both programs and to better ensure that the programs' resources are efficiently used. For example, procedures should be developed for systematically screening all requests for management assistance

which identify the types of assistance programs available and the clients these programs are best capable of helping. In addition, a plan containing specific goals and objectives consistent with the program's legislative mandate should be developed for the 7(j)(10) program. Specific recommendations are discussed on pages 18, 19, and 33.

#### SBA COMMENTS

SBA agreed with GAO's recommendations for improving the management of the 7(j) programs. SBA stated that it has already initiated actions on several GAO recommendations and will take additional corrective actions on others in fiscal year 1982. (See app. IV.)



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## ABBREVIATIONS

COTR	contracting officer's technical representative
GAO	General Accounting Office
MAD	Management Assistance Division
MSB/COD	Minority Small Business and Capital Ownership Development
SBA	Small Business Administration

## CHAPTER 1

### INTRODUCTION

This report is the last in a series of reports we have issued pursuant to Public Law 95-507, approved October 24, 1978, which requires us to evaluate certain Small Business Administration (SBA) programs. This report deals with SBA's management assistance programs authorized by section 7(j) of the Small Business Act, as amended.

A complete list of reports we have issued pursuant to Public Law 95-507 appears in appendix I.

### ORIGIN OF THE 7(j) PROGRAM

The 7(j) management assistance programs represent an expansion of the Call Contracting Program established in 1967 through an amendment to the Economic Opportunity Act of 1964 (Public Law 88-452). The purpose of the Call Contracting Program was to help socially and/or economically disadvantaged people establish and maintain small businesses by improving their technical and management skills. The term "call contracting" refers to the method in which assistance is provided to eligible small businesses (see p. 3).

Public Law 93-386, approved August 23, 1974, transferred the Call Contracting Program from the Economic Opportunity Act to section 7(j) of the Small Business Act. Although SBA had always been responsible for administering the program, the transfer of authority was intended to eliminate confusion if the Economic Opportunity Act expired. While no changes were made to the Call Contracting Program as a result of this transfer, Public Law 95-507 subsequently modified the program by:

- Adding a new section 7(j)(10) to provide supplementary management and technical assistance exclusively to small disadvantaged businesses participating in a special contracting program authorized under section 8(a) of the Small Business Act.
- Assigning responsibility for the entire 7(j) program to an Associate Administrator for Minority Small Business and Capital Ownership Development (MSB/COD). Before Public Law 95-507 was passed, the Call Contracting Program was administered by SBA's Associate Administrator for Management Assistance.

A primary objective of Public Law 95-507 was to improve SBA's administration of the 8(a) program. Under the 8(a) program, SBA acts as a prime contractor to Federal departments and agencies and fulfills the prime contracts by subcontracting the work to eligible disadvantaged small businesses. Firms participating in the 8(a) program are expected to develop into self-sufficient

entities capable of competing in the marketplace without 8(a) support. At that point, the 8(a) firm "graduates" from the program.

PROGRAM FUNDING, ELIGIBILITY,  
AND ADMINISTRATION

SBA's allocation of funds for management and technical assistance to small businesses under the 7(j) program has risen over the years from about \$1.2 million in 1971 to about \$10 million in 1981. Similarly, the number of businesses assisted rose from 1,040 in 1971 to an estimated 6,840 in 1981.

For fiscal years 1978 through 1980, program funding has been divided between the 7(j)(1-9) and 7(j)(10) programs as shown below.

Fiscal year	Total 7(j) appropriations	Amount allocated to (note a)			Number of contracts awarded
		Regions		Central office	
		<u>7(j)(1-9)</u>	<u>7(j)(10)</u>	<u>7(j)(10)</u>	
1978	\$ 8,000,000	b/\$8,000,000	\$ (c)	\$ (c)	86
1979	11,000,000	7,500,000	1,500,000	2,000,000	137
1980	10,000,000	5,000,000	3,000,000	2,000,000	125

a/These amounts represent the original allocations. We noted, however, some variances between these preliminary allocations and actual contract amounts. For example, in fiscal year 1979, actual 7(j)(10) central office contract awards totaled about \$2.1 million, although only \$2.0 million had been allocated originally.

b/Includes \$1,560,000 retained and administered by central office to fund small business development centers and nationally oriented studies or services.

c/The 7(j)(10) program was not established until fiscal year 1979.

Individuals or firms eligible to receive assistance under section 7(j)(1-9) include those receiving business loans under SBA's Economic Opportunity Loan Program, 1/ firms participating in the 8(a) program, and firms located in areas of high unemployment.

1/The Economic Opportunity Loan Program provides financial assistance to socially and/or economically disadvantaged individuals who cannot get assistance from the private sector or other SBA programs. Our report entitled "Most Borrowers of Economic Opportunity Loans Have Not Succeeded in Business" (CED-81-3, Dec. 8, 1980) provides specific information pertaining to this loan program.

The Associate Administrator for MSB/COD is responsible for the overall administration of both programs. The programs are carried out by MSB/COD's Office of Development Assistance. However, the day-to-day management of the 7(j)(1-9) call contracting program has been delegated to SBA regional and district offices. On the other hand, administration of the 7(j)(10) program is shared by these field offices and the central office. Additional distinctions between the two programs are described below.

7(j)(1-9)--Call  
Contracting Program

Under this program SBA awards both competitive and noncompetitive contracts to management consulting firms that agree to be "on call" to provide business counseling and general management assistance to eligible recipients referred to them by SBA. Under the competitive selection process, prospective contractors respond to a request for proposal that specifies the type and estimated number of days of services that will be needed in the upcoming year in various areas of the United States. The prospective contractors state their qualifications, the estimated number of service days they can provide to eligible businesses, and the daily rate for their management services. These proposals are reviewed by a central office committee, and contracts are awarded by the central office to those considered most qualified. The committee evaluates all proposals based on three criteria: (1) quality, experience, and staff capability, (2) previous experience and effectiveness in performance, and (3) price per task day. The first two criteria are weighed at 40 points each, and the price criteria is weighed at 20 points.

In the second method, the assistant regional administrators negotiate with and award noncompetitive contracts to 8(a) management assistance firms. To further develop 8(a) firms, these noncompetitive contracts are awarded exclusively to firms participating in the 8(a) program. Before fiscal year 1980, a portion of the 7(j)(1-9) resources was set aside for noncompetitive 8(a) contracts. In fiscal year 1980, such contracts were awarded using 7(j)(10) resources. Services provided by these 8(a) firms are basically the same as those provided under the competitive method. Firms selected under the two methods are combined to form a pool of "call" contractors which SBA's regional and district offices can use to provide management and technical services to eligible firms.

Contracts under both methods are usually awarded for 1 year. Services are requested through the issuance of task orders by regional or district offices. Task orders usually request the contractor to provide management assistance in any one or a combination of the following areas: (1) general management, (2) accounting and bookkeeping, (3) marketing and advertising, (4) production and engineering, and (5) execution of Government contracts. Task orders can last from 1 day to 2 months or more

depending on the assistance required. The contractor must issue a report at the completion of each task assignment. If SBA approves the report, it pays the contractor at the agreed upon daily contract rate for the work performed. This process can continue up to the dollar limits stated in the contract.

#### 7(j)(10)--Small Business and Capital Ownership Development Program

The 7(j)(10) program, created to provide supplementary management and technical assistance exclusively to 8(a) firms, was established in response to criticism of the 8(a) program voiced at congressional hearings in 1978. In Senate Report No. 95-1070, on the bill that eventually became Public Law 95-507, the committee noted that despite the special procurement opportunities provided to 8(a) firms, few had graduated from the program. Statements made at the 1978 hearings indicated that one of the key reasons for the low level of success in the 8(a) program was the inadequate level of management and technical assistance offered by SBA's business development specialists and existing SBA management programs. In addition, SBA acknowledged that the 8(a) program historically had focused on the award of contracts and had placed little emphasis on business development. Accordingly, the 7(j)(10) program was created by Public Law 95-507 to supplement management and technical assistance already available to 8(a) firms with the expectation that these firms would begin to receive the intensive professional management and technical assistance needed to develop into viable businesses.

Because 7(j)(10) assistance is supplementary in nature, similarities and overlap exist between it and 7(j)(1-9). For example, assistance such as accounting and bookkeeping, marketing, financial counseling, and general management are available to 8(a) firms under both 7(j)(1-9) and 7(j)(10). In this connection, 7(j)(10) funds are also used to award noncompetitive call contracts as mentioned on page 3. The 7(j)(10) program, however, is intended to emphasize assistance to 8(a) firms in developing business plans. The business plan is the cornerstone of the 8(a) program since it identifies the firm's strategy and resources needed to become a self-sustaining small business. Accordingly, the plan enables SEA to identify the types of management assistance the firm needs to overcome its business deficiencies.

#### WHERE THE 7(j) PROGRAMS FIT IN RELATION TO OTHER SBA MANAGEMENT ASSISTANCE PROGRAMS

Aside from the 7(j) programs administered by MSB/COD, SBA's Management Assistance Division (MAD) operates a diversified program of management assistance to strengthen the operations of small businesses. This assistance falls into two major categories--counseling and training. Counseling services are intended to address specific problems encountered by an individual business

and are provided by SBA staff professionals, volunteers from the business community, and college students. SBA's training services, on the other hand, are designed for large groups of prospective or actual small business owners. The primary purpose of these services is to discuss problems common to the participants through forums such as prebusiness workshops, problem-solving clinics, and management conferences and courses.

PRIOR STUDIES OF THE  
CALL CONTRACTING PROGRAM  
INDICATED MANY PROBLEMS

SBA's Call Contracting Program has been evaluated several times over the past 7 years, sometimes as an independent program, and other times as part of a broader review of SBA's minority business development programs. Reviews have been made by our office, SBA internal auditors, and private consultants under contract to SBA. These reviews pointed out certain program deficiencies such as

- ineffective use of program resources,
- insufficient consideration of consultant's capabilities before contract award,
- inconsistent administrative procedures, and
- untimely and/or inadequate assistance given to clients.

The major deficiencies cited in these reviews as well as proposed recommendations are summarized in appendix II.

These management assistance problems have been recognized by the Congress, SEA, and outside organizations. However, as discussed in this report, not enough corrective action has been taken.

OBJECTIVES, SCOPE,  
AND METHODOLOGY

In accordance with our mandate under Public Law 95-507 and as a result of subsequent meetings with the House and Senate Small Business Committees, the principal objectives of our review were to determine whether (1) the Call Contracting Program was operating efficiently and effectively and (2) the new 7(j)(10) business development program was being implemented as intended by the Congress.

To accomplish the first objective, we collected and analyzed specific data on a sample of 1,425 call-contract tasks completed during fiscal years 1978, 1979, and 1980. The sample of completed tasks was taken from a stratified random sample of 40 contracts administered by four SBA regions. The 40 contracts represented about 29 percent of the total number of contracts awarded in those regions during the 3-year period.

The data we collected on those tasks included such items as how long it took to complete a task, cost of the task, and who performed the work (contractor or subcontractor). Also, to obtain views on the value of advice given to small business owners, we interviewed a random sample of 302 clients using a questionnaire. Here we solicited information such as the amount of advice that was actually used, value of the advice, and follow up with the client by SBA.

To accomplish the second objective, we collected and analyzed data on all 27 awards made by the central office under the 7(j)(10) business development program during fiscal years 1979 and 1980. We also collected data on 7(j)(10) funds used in the regionally administered call contracting program.

We interviewed SBA officials responsible for these two programs at the central office, four regional offices, and eight district offices. We also interviewed 25 call contractors associated with the program.

More details on the scope and method of our review are presented in chapter 4.

For purposes of presentation, we discuss both the 7(j)(1-9) and 7(j)(10) funds administered by the regional and district offices, and used for the Call Contract Program, in chapter 2. The 7(j)(10) business development program, as administered by the central office, is discussed in chapter 3. Although both programs are closely related, distinctions in administration merit this separation.



## CHAPTER 2

### SBA NEEDS TO IMPROVE ITS ADMINISTRATION OF CALL-CONTRACTING SERVICES

The major goal of the Call Contracting Program is to provide effective management and technical assistance services to aid qualified small businesses. According to recipients of these services, this goal has only been partially achieved. Only about 34 percent of the 302 recipients we interviewed thought the service was highly useful. Almost 30 percent stated that the results were of moderate or some value while another 23 percent thought the results were of no value. The remaining 13 percent did not express an opinion.

Also, our review showed that weak SBA administrative practices caused certain program inefficiencies, resulting in fewer clients being served than otherwise would have been possible. Specifically, the administrative problems we found include:

- Call contractors were sometimes used when other less expensive resources were available.
- SBA's contracting methods resulted in large differences in task-day costs between competitive and noncompetitive 8(a) call contracts for similar work performed.
- Contractors made excessive use of subcontractors.
- SBA did not always followup after task order completion to determine client satisfaction.

Although a number of reports critical of SBA's management and technical assistance programs were issued between 1974 and 1980 by our office, SBA internal auditors, and SBA consultants, some of the same problems remained at the time of our current review. The following sections summarize our observations and conclusions.

#### CALL CONTRACTORS USED WHEN LESS EXPENSIVE RESOURCES WERE AVAILABLE

In the four SBA regions where we conducted our review, we found little integration or coordination of SBA's management assistance resources in providing the least costly and most effective services which can satisfy client needs. Since the 7(j) Call Contracting Program was transferred from the Associate Administrator, MAD, to the Associate Administrator, MSB/COD, in 1978, SBA has not established guidelines on how the district office staff should coordinate their duties in order to provide the best management assistance services available to their clients. One result has been the use of call contractors when other less costly resources were available, both within and outside SBA.

Requests for management assistance can originate from several sources within SBA's district offices. For example, the finance division may ask MAD to perform a financial analysis or feasibility study on a prospective client who is applying for an SBA loan. The finance division would be interested in having the call contractor determine the client's financial soundness and ability to repay the loan. Another example would be a request from the Portfolio Management Division, which is responsible for servicing loans guaranteed by SBA. This division may request assistance from either MAD or MSB/COD to determine why a client is delinquent with a loan payment and to provide the management assistance needed to help the client meet his or her loan obligation. No operating guidelines exist which spell out the focal point for management assistance. As a result, the type of resource selected depends on which management assistance person or group receives the request. However, we found no systematic approach at SBA district offices for matching available resources with client needs.

In this connection, we noted that a 1980 report by an SBA consultant contracted to study the impact of SBA management assistance programs (see app. II) concluded that SBA's management assistance programs can have a significant positive impact on their clients if the management resources are properly matched with particular client types. By doing this, the report projected that SBA could triple the impact of its management assistance.

Regarding the Call Contracting Program, the 1980 study found it effective for experienced small business owners whose businesses are relatively sophisticated and successful. However, according to the study, this type of client comprised only 14 percent of all clients who received call-contracting assistance. On the other hand, the study showed that for 43 percent of the clients served under the program, the assistance had no impact. For these owners, the study concluded that other counseling services provided by MAD were more effective.

However, at the district offices we visited, no written criteria existed governing which management assistance resource--MAD counseling and training services or MSB/COD's 7(j) call contractors (see ch. 1 for descriptions)--would be best suited or most effective for certain clients or for particular client problems. We found that SBA had provided no guidance at the district level on how MAD and MSB/COD should coordinate their efforts to assure that the most effective and least costly management assistance resource is used to satisfy clients' needs. Our interviews with seven district officials indicated that the decision to use a particular resource was usually made by the SBA official who originated the request. The basis for resource selection varied among the district officials and included such factors as personal knowledge, urgency, and the availability of management resources.

In two districts, officials said staff in the two groups--MAD and MSB/COD--rely first on their own management assistance programs rather than refer tasks to other SBA resources. For example, two management assistance officers in MAD told us they generally give the highest priority to their own counseling services because of the services' low cost. Other MAD officials stated that referrals to MSB/COD for call-contracting help are made only as a last resort. Two MAD officials, however, told us they would not refer their clients to certain call contractors because of the poor quality of services these call contractors had provided in the past. MSB/COD officials, on the other hand, said they primarily use call contractors because they respond more quickly to client needs than the other resources.

One district director said that program goals which require that each SBA group assist a certain number of clients each year was an influencing factor for using one's own resources over those of another group.

In our opinion, without a uniform system or method for coordinating management assistance programs and resources, SBA has no assurance that its limited management and technical resources are being allocated efficiently and effectively. We found several examples where the lack of coordinating management assistance programs or considering available outside resources resulted in the inappropriate use of call contractors when other less costly resources were available.

#### Example 1

In February 1981, the San Francisco district office issued five task orders totaling about \$22,000 (120 staff days at \$185 per day) to a call contractor to study the impact on liquor retailers of California abandoning its fair trade laws. We noted that SBA had conducted a similar study 2 years earlier at a cost of \$11,647 and the 1981 study was to update the 1979 information. The district director said the use of 7(j) funds for these studies was appropriate because many small retail liquor stores are owned by minorities who also have SBA guaranteed loans.

We believe a study of this type could have been completed by using less costly resources. For example, the district office could have used a volunteer group participating in MAD's Small Business Institute Program. Under this program, faculty and graduate students from various colleges and universities conduct management research and counseling services for small businesses at a fee of \$250 per case as class projects.

A second alternative would have been for SBA to sponsor a joint survey with the various beverage trade associations or State agencies that may have been interested in such a study. In this connection, we contacted an official with the California State Department of Alcohol Beverage Control to determine whether that

agency had done any work in the area. We were told that a study similar to SBA's was done during the same time period. While the State study was not published, the data was available to any interested person or group. In fact, the 7(j) call contractor's staff obtained information from this agency on several occasions. This official said his agency would have considered joint sponsorship on a study with SBA, but SBA did not call.

We brought this issue to the attention of the San Francisco district director. The director said that he was unaware of the State's study. The official agreed that a joint effort would have been less costly and more beneficial to all parties concerned. He said that in the future SBA will consider using alternative resources such as this one before it selects a call contractor for such a project.

#### Example 2

In 1980, a call contractor was used to provide a business plan and loan packaging seminar. A major goal of the seminar, which cost \$38,659, was for each participant to prepare a loan package. However, our analysis of the seminar results indicated the contractor had little success with this task.

The consultant did not adequately publicize the seminar, nor, according to SBA officials, did he perform the planned prescreening of the program participants. As a result of the lack of advance publicity, few people attended the seminar. In the end, the seminar was opened to all interested people even though the intended focus was to be on women who had done some preliminary work toward opening a small business.

According to the consultant's report only 7 of the 13 participants actually put a loan package together. The other six were still gathering the background information needed to start a business. Additionally, even though the consultant's report stated that seven participants submitted loan packages at the end of the seminar, we were unable to verify this. We contacted one of these participants who told us that she and her partner, who was also counted as having submitted a loan package, did not submit a package because they did not think their business was feasible.

As part of the call contractor's cost proposal for conducting the seminar, the firm was to

publicize and advertise the seminar	\$ 3,606
prescreen eligible participants	3,692
develop the course material	<u>14,334</u>
Total	<u>\$21,632</u>

Our review revealed that there was little publicity or advertising expense incurred, and SBA does not know of any prescreening of participants, yet SBA paid the call contractor for all requested services. When we brought this to the District Director's attention, he said a letter would be sent to the contractor to have those funds returned. In a May 5, 1981, letter to the consultant, an Assistant District Director requested that the consultant provide an accounting of the advertising and publicity expenses incurred for the women's seminar. After further discussion with our staff, the Assistant District Director also requested that the consultant provide SBA with an accounting of all expenses related to the seminar. As of June 25, 1981, the consultant had not responded to SBA's request. Also, we noted that while SBA paid the call contractor \$14,334 to develop the course material, the district office did not retain a copy of this material which could be used for future seminars.

One management assistance officer, working with the call contractor, said SBA did not have the inhouse resources to sponsor such a seminar at the time. However, the Assistant District Director, MAD, told us that such a seminar was clearly within the Division's capability, whether using inhouse resources or acquiring free outside consulting assistance through contacts in the small business community.

In our opinion, this seminar was poorly executed and could have been conducted with less costly management resources available in the district office. Had the district office (1) provided the course material, (2) publicized and advertised the seminar, and (3) prescreened the participants, it would have saved at least \$21,632 of 7(j) funds.

Overall, these examples demonstrate the impact of SBA not having a plan or procedures which require district office staff coordination to ensure that call contractors are used only on tasks for which they are well-suited and that inhouse resources or low-cost volunteer resources are used whenever possible. In our opinion, SBA needs to develop procedures for systematically screening all requests for management assistance. These procedures need to identify all types of assistance available, and specify those situations and clients the assistance is best capable of helping. In this connection, SBA needs to consider designating an individual as a focal point within each district office who would receive all requests for management and technical assistance. This individual could make an independent judgment as to whether the request could best be satisfied by MAD or MSB/COD and refer the request to the appropriate group.

DIFFERENCES IN TASK-DAY COSTS  
BETWEEN COMPETITIVE AND  
NONCOMPETITIVE 8(a) CONTRACTS

We noted significant differences between task-day costs for competitive and noncompetitive 8(a) call contracts. In our sample of 40 contracts for fiscal years 1978, 1979, and 1980, the task-day

costs for SBA's noncompetitive 8(a) contracts have been, on the average, about 49 percent higher in those last 2 years than competitively awarded contracts for essentially the same types of services. The noncompetitive 8(a) method is used by SBA for awarding contracts to qualified consulting firms that participate in the 8(a) program. On the other hand, the competitive method is used for awarding contracts to 8(a) and non-8(a) firms that otherwise meet SBA's guidelines for being a call contractor.

The following chart illustrates the differences in the average task-day costs between SBA's competitive and noncompetitive 8(a) call contracts over the past 3 fiscal years. Of particular importance is the widening gap between the costs of the two types of contracts, which shows that the competitive rate has decreased over this period while the noncompetitive rate has increased.

<u>Fiscal year</u>	<u>Contract</u>	<u>Number of contracts</u>	<u>Task order days used</u>	<u>Contract amount spent</u>	<u>Average cost per day</u>	<u>Percent difference</u>
1978	Competitive	7	1,999	\$ 346,924	\$174	25.3
	Noncompetitive 8(a)	6	2,103	457,522	218	
1979	Competitive	4	1,512	252,518	167	41.9
	Noncompetitive 8(a)	15	2,626	622,294	237	
1980	Competitive	5	741	113,336	153	57.5
	Noncompetitive 8(a)	<u>3</u>	<u>193</u>	<u>46,566</u>	241	
Total		<u>40</u>	<u>9,174</u>	<u>\$1,839,160</u>	<u>\$200</u>	

In one SBA region, the actual task-day cost differential varied widely, ranging from as low as \$123 per task-day for a competitive contract to as high as \$450 for a noncompetitive 8(a) contract.

In three of the four SBA regions where we conducted our review, we noted three instances where an 8(a) consulting firm was awarded both a competitive and a noncompetitive call contract for the same types of services. The chart below depicts these three instances and shows that a firm's task-day rates under the two types of awards can vary by as much as 100 percent.

<u>Firm</u>	<u>Competitive daily rate</u>	<u>Noncompetitive daily rate</u>	<u>Percent difference</u>
A	\$116	\$231	99.1
B	119	238	100.0
C	160	216	35.0

To determine the reasons for and the impact of differences in daily rates between competitive and noncompetitive contracts, we interviewed selected contractors and SBA officials. We also conducted a telephone survey of 302 recipients of call-contracting assistance to determine their satisfaction with the assistance provided under both methods. In addition, we analyzed the average billable task days and average length of time it took to complete each task under each of the 40 contracts included in our sample.

We were told by three contractors, an acting SBA regional administrator, and other SBA officials that some competitive daily rates may be unrealistically low. According to one SBA district official, such rates do not allow contractors to obtain well-qualified consultants, and clients thus may not be receiving the quality of services they would under noncompetitive contracts. One SBA official contends that contractors may make up for the low rates by (1) extending the number of days per task order, (2) using less qualified consultants, or (3) providing untimely assistance.

A senior MAD program analyst in SBA's New York region said the average consulting rate in the region was \$200 per day and firms with rates below the average tend to hire less capable consultants. The result of hiring less capable consultants, according to this official, is that lower quality management assistance is provided. He said that noncompetitive contract rates negotiated in the region are more realistic than the competitive contract rates awarded by the central office and these higher noncompetitive contract rates allow contractors to hire more qualified personnel. For this particular region, the average task-day rate for all noncompetitive contracts in fiscal year 1980 was 48.6 percent greater (\$214 versus \$144) than the average task-day rate for all competitive contracts.

While SBA's contracting methods resulted in significant differences in task-day costs, on the average there was very little difference in the number of days it took to complete the tasks. That is, there was no evidence that contractors who charged lower rates under competitive awards took longer to complete tasks. Our analysis of the 40 contracts included in our sample showed that the average number of days to complete a task under a competitive award was 6.1, while tasks performed under the noncompetitive contracts took 6.8 days to complete.

The following table summarizes the results of our analysis on the average number of days billed by the contractors selected in our sample of 40 contracts.

<u>Fiscal year</u>	<u>Type of contract</u>	<u>Number of contracts</u>	<u>Average days billed per task</u>
1978	Competitive	7	6.0
	Noncompetitive	6	6.4
1979	Competitive	4	7.0
	Noncompetitive	15	6.9
1980	Competitive	5	5.1
	Noncompetitive	<u>3</u>	12.1
Total		<u>40</u>	
Composite	Competitive	16	6.1
	Noncompetitive	<u>24</u>	6.8
Total		<u>40</u>	

Furthermore, our analysis revealed that the total length of time it took from the issuance of a task order by SBA to task completion by the contractor varied little between the types of contracts. The average number of calendar days from task request to task completion under the competitive contracts was 82 days while under the noncompetitive contracts the average was 79 days.

Finally, our analysis of client responses to our telephone survey of how clients perceived the usefulness of the assistance provided showed that the type of contract and the task-day rate were not contributing factors in the client's acceptance and perceived usefulness of the assistance provided. In fact, the responses showed that the clients were as satisfied with assistance received under competitive contracts as they were with assistance received under noncompetitive contracts.

In summary, the composite data from our analysis of the 40 contracts showed little difference between the two contracting methods in terms of the average number of billable days, the average number of calendar days between task order request and task order completion, and perceived usefulness of advice provided by the contractor. Thus, it appears that consultants working under the lower competitive rates are not extending the number of billable days per task order nor are they taking longer to complete tasks. The only significant difference between the two types of contract awards is that costs per task-day were much lower under competitive awards than under noncompetitive awards.

#### SUBCONTRACTORS WERE USED EXCESSIVELY

During the period covered by our review, SBA staff generally could not tell which subcontractors actually performed work under contracts they monitored nor the amount of work performed using this arrangement. SBA contracting procedures, among other things, require that a contractor perform at least 50 percent of the work



required under the contract using personnel from the firm's existing organization. Also, the contractor is to use personnel designated in its proposal and, in cases of substitution, the contractor must receive prior approval from SBA.

We were told by the former Director, Office of Development Assistance, that the 50-percent requirement (later, when 8(a) consulting firms began to participate, this requirement became 55 percent for these firms) was initially instituted because SBA wanted to be sure that firms under contract to SBA develop and maintain their own inhouse management and technical expertise and knowledge of the local small business community. He said SBA did not want "contract brokers," people who may win contracts but then subcontract to others who have unknown skills or experience. However, in practice, this requirement often was not met.

Of the 40 contracts we reviewed, 14 had subcontracting levels above the contract limitation, 20 were within the contract maximums, and files for the remaining 6 were so incomplete at both SBA and the contractors' offices that we could not determine the subcontracting level. In several of the 14 contracts, the subcontracting level was over 75 percent. For one noncompetitive award, a subcontractor performed all task orders we reviewed under the contract. The following table shows the 14 contracts we reviewed with subcontracting levels above 50 percent.

<u>Region</u>	<u>Number of con- tracts</u>	<u>Task orders reviewed</u>	<u>Days billed to SBA</u>	<u>Days paid to subcon- tractor</u>	<u>Percent</u>
II (New York)	4	182	1,696	1,052	62
III (Philadelphia)	2	32	195	180	92
V (Chicago)	3	127	507	333	66
IX (San Francisco)	5	263	1,195	809	68
Total	<u>14</u>	<u>604</u>	<u>3,593</u>	<u>2,374</u>	66

Overall, we found that SBA district office staff did not follow SBA contracting requirements. Local staff generally did not know who actually performed the consulting work nor the level of subcontracting performed under each of the contracts. In our opinion, placing a limitation on the subcontracting level is a good one. We agree that it is important for contractors to maintain an inhouse technical and managerial capacity to aid small businesses. Also, this requirement provides some degree of assurance that the person performing the work has some measure of experience and knowledge about problems peculiar to small businesses.

#### CLIENT SATISFACTION WAS MIXED

In our view, an important measure of contractor success is the value of the advice the contractor offers to the client.

SBA also recognized this need for feedback and requires in its standard operating procedures that such followup take place and a written report be placed in the client's file. However, only 54 percent of the 302 clients we interviewed said SBA contacted them about the results of the contractor's work. Thirty-four percent said SBA did not contact them, 11 percent were uncertain if SBA followed up, and the remainder did not respond.

To get some measure of the value of advice given by 7(j) call contractors, we attempted to randomly contact at least 10 clients from each of the 40 call contracts we reviewed. We were able to obtain 302 completed client interviews using this technique. Appendix III summarizes client responses to key questions contained in the interview form.

Among other things, we wanted to measure: (1) the time it took for a client to receive a final report, (2) the perceived usefulness of the consultant's advice, (3) the amount of advice actually implemented, and (4) if needed, would the client recommend or use that consultant again.

#### Report time varied

Fifty-two percent of the clients we interviewed said they received the report within 1 month after their last contact with the consultant. Another 21 percent said they received a report between 1 and 2 months, 7 percent said it took from 2 to 4 months, and 3 percent said it took over 4 months. The remaining 17 percent did not remember how long it took.

#### Perceived usefulness and amount of advice implemented

A key objective of our interviews was to determine, from the client's viewpoint, the value of the consultant's advice. In this connection, we asked how useful the consultant's written report was to the client. Only 34 percent said the report was of very great or great value. Another 30 percent said it was of moderate or some use, while 23 percent indicated the report was of little or no value. Thirteen percent did not respond to the question.

In a related question, we attempted to determine how much of the advice the client tried to implement. The results were similar to those obtained from our question on the value of the written report. Thirty-four percent of the clients attempted to implement all or most of the advice, 25 percent attempted to implement half or less of the advice offered, and 19 percent said they tried little or none of the advice provided. Twenty-two percent did not respond.

#### Would they use the consultant again?

To determine the clients' perceptions of the consultant's worth, as separate from the other issues, we asked two related

questions: (1) would the client recommend that consultant to a small business associate and (2) would the client request the same consultant again if advice were needed in the future?

The responses to the two questions were similar. About 68 percent of the clients said they would probably or certainly use the same consultant again or recommend the consultant to their associates. Another 7 to 10 percent were uncertain if they would use the consultant again or recommend the consultant to another associate. Twenty-five and 21 percent, respectively, said they probably would not or certainly would not use the consultant or recommend the consultant to associates. One percent did not respond to the two questions.

In summary, the responses to our questionnaire by 302 recipients of 7(j) consultant services were mixed. Less than 35 percent of the clients thought the consultant's report to be of very great or great value, but 67 percent said they would or probably would use the same consultant again. Only 34 percent of the clients tried to implement all or most of the advice provided, but most would recommend the consultant to business associates. About one-third said they were not contacted by SBA after the task order was completed.

#### CONCLUSIONS

The Call Contracting Program has not been effectively administered in the regions and districts covered by our review. As a result, program funds have not been used in the most efficient manner, leading us to conclude that fewer clients received management and technical assistance than would otherwise have been possible. In addition, nonadherence to established procedures resulted in call contractors making excessive use of subcontractors.

SBA used call-contracting services when less costly resources were available. This occurred because of a lack of coordination between MAD and MSB/COD to assure that the least costly and most effective resources were used. We believe SBA needs to develop procedures for systematically screening all requests for management assistance. These procedures need to identify the types of assistance programs available and specify those situations and clients these programs are best capable of helping. In this connection, SBA could designate a qualified individual in each district office as a focal point who would (1) receive all requests for management and technical assistance, (2) make an independent judgment as to whether the request could best be satisfied by MAD or MSB/COD, and (3) refer the request to the appropriate group.

To ensure that it provides management and technical assistance to the maximum number of clients with its limited program funds, SBA needs to assure that it uses the least costly source of qualified services. Our client survey results showed that the

quality and timeliness of work performed by contractors that received competitively awarded contracts was about the same as that of 8(a) contractors that received noncompetitive contracts. The cost to SBA of work performed under noncompetitive contracts was, however, about 49 percent higher over the past 2 years than under competitively awarded contracts. We believe SBA needs to set a maximum task-day cost allowable under noncompetitive contracts for various types of services.

In addition, SBA has not always adhered to its contracting requirements which state that a call contractor must perform at least 50 percent of the work under a call contract using its own personnel as opposed to using subcontractors. SBA's objective is to make sure that its contractors develop and maintain inhouse management and technical expertise and knowledge of the small business community. If SBA is to satisfy this objective, it must do a better job of monitoring the performance of its call contractors.

On the other hand, many of the clients we interviewed thought the advice they received from the call contractors was of value. Over half of the clients said they would request the same consultant again if they needed help in the future. Our concern in this area is that SBA did not follow up with at least 34 percent of the clients after task-order completion and, therefore, SBA really did not know which contractors or subcontractors were fulfilling client needs. In our view, this feedback is critical to SBA for use in evaluating future contract proposals.

#### RECOMMENDATIONS

We recommend that the Administrator, SBA, direct the Associate Administrator, Minority Small Business and Capital Ownership Development, to:

- Develop procedures for systematically screening all requests for management assistance which identify the types of assistance programs available and the situations and clients these programs are best capable of helping. One means of accomplishing this would be to designate a qualified individual in each district office to receive and evaluate all requests for management and technical assistance and refer them, as appropriate, to MAD or MSB/COD.
- Establish a maximum task-day cost allowable under noncompetitive 8(a) contracts for various types of call-contract services.
- Direct regional and district offices to follow existing agency procedures for
  - (1) assuring that call contractors are not exceeding SBA subcontracting limits and

- (2) obtaining feedback on client satisfaction with services provided by call contractors.

SBA COMMENTS

SBA's response to our recommendations was positive. SBA commented that its guidance to the regions for fiscal year 1982 addresses the need for better coordination at the District Office level between Management Assistance, Financial Assistance, and MSB/COD officials. In addition, SBA informed us that revised Standard Operating Procedures, expected to be issued in September 1981, will: (1) establish maximum allowable task-day costs and (2) ensure that subcontracting limits are not exceeded and feedback is obtained regarding client satisfaction. (See app. IV.)

### CHAPTER 3

#### SBA NEEDS TO IMPROVE ITS

#### MANAGEMENT OF THE 7(j)(10) PROGRAM

In response to criticisms about the inadequate level of management and technical assistance being provided to 8(a) firms, the Congress created the 7(j)(10) program in October 1978 to supplement assistance already available to 8(a) firms with the expectation that these firms would begin to receive the intensive professional management and technical assistance needed to develop into viable businesses. We found, however, that SBA has not developed an overall plan or strategy for administering the 7(j)(10) program nor has it established specific program goals or objectives. Consequently, the program lacks direction and no adequate basis exists to assess results. Also, in reviewing projects awarded by SBA's central office under the program during fiscal years 1979 and 1980, we found that

- several were awarded outside the 7(j)(10) program's legislative objectives;
- others were awarded for large dollar amounts which benefited only one 8(a) firm, thereby limiting the number of firms that could have been served by the program; and
- still others were awarded to perform functions SBA should perform inhouse.

In addition, SBA's central office did not adequately monitor and evaluate contractors' performance in fiscal years 1979 and 1980. In our opinion, this problem was attributable to the lack of procedures or guidelines that describe and assign monitoring and evaluation responsibilities.

SBA has addressed some of these shortcomings; however, additional administrative actions are needed to better ensure that the program's legislative objectives are achieved.

#### PROGRAM PLANNING HAS BEEN INADEQUATE

As stated in chapter 1, Public Law 95-507 vested the management of the 7(j)(10) program with the Associate Administrator for Minority Small Business and Capital Ownership Development (MSB/COD). One of MSB/COD's mission statements calls for the development of an overall plan for administering the 7(j)(10) program, including criteria for identifying and selecting projects eligible for program funding. Our review, however, disclosed that MSB/COD officials have not developed an overall plan for accomplishing the program's legislative objectives. The importance of program planning, steps critical to its implementation,

and specific planning deficiencies which we identified regarding the 7(j)(10) program, are discussed below.

Planning is a basic element of the management process for any program. It involves (1) defining program goals and objectives in relation to legislative intent, (2) setting and implementing priorities to achieve these goals and objectives, and (3) measuring the results through organized, systematic feedback. Planning contributes to management effectiveness by, among other things, providing a framework for decisionmaking and specific accountability for results.

For program planning to be effective several steps must be followed. These include:

- First, establishing specific goals and objectives which should guide overall agency policy in implementing the program through its applicable organizational components.
- Second, setting and implementing priorities for achieving program goals and objectives. Because of limited program resources it is imperative that program funds concentrate on what is important. Without priorities, program resources may be scattered over a broad range of activities and, therefore, may not be coherently addressing specific program goals and objectives.
- Third, establishing a method for systematically monitoring and evaluating program results. Feedback on performance is critical in determining whether resources have been effectively allocated and program goals and objectives are being achieved.

In our judgment, the most critical deficiency in SBA's administration of the 7(j)(10) program has been its failure to develop a comprehensive plan for accomplishing the program's legislative objectives and to establish program goals, objectives, and priorities. As a result, program funds have been spent on a wide variety of activities, many of which we question. In addition, responsibilities of key program officials charged with monitoring and evaluating contractors' performance were not well defined during the program's first 2 years. These problems are discussed below.

Lack of program plan results  
in subjective funding decisions

In the absence of a program plan, we asked SEA's Deputy Associate Administrator, MSB/COD, as well as the Director of MSB/COD's Office of Development Assistance, what criteria were used to allocate the \$8.5 million in 7(j)(10) funds between SBA's central and regional offices in fiscal years 1979 and 1980 (see

p. 2). These officials stated that allocation decisions were made by MSB/COD's former Associate Administrator and SBA's former Deputy Administrator. They said they were generally not aware of what, if any, criteria were used by these former officials to make these allocations. Furthermore, they could not provide us with any documentation that indicated program funds were allocated in accordance with specific goals or objectives.

Our inability to identify the basis for the allocation of funds is indicative of SBA's inadequate program planning. The more serious consequences of inadequate planning, however, are demonstrated by our review of how the central office used its share of the 7(j)(10) funds. As shown on page 2, the central office retained about half of the \$8.5 million allocated to the 7(j)(10) program in fiscal years 1979 and 1980. These funds were obligated to fund 27 contracts which, with one exception, were selected from more than 100 unsolicited proposals. This extensive use of unsolicited proposals permitted outside organizations to greatly influence program direction and policy.

SBA justified its approach of awarding contracts on the basis of unsolicited proposals in an August 1979 memorandum which stated that:

"\* \* \* Although this act [Public Law 95-507] was passed in October, 1978, the agency has just now completed its internal reorganization \* \* \*. Because of this, we are unable to complete a formally advertised procurement to acquire those services prior to September 30, 1979 \* \* \*.

"In FY 80, we propose to procure all required 7(j)(10) services through competitively advertised procurements. It should therefore be noted that this effort is one-shot only and will not reoccur. \* \* \*." (Bracketed information provided by GAO.)

However, contrary to this statement, SBA continued its practice of fulfilling 7(j)(10) program requirements in fiscal year 1980 through the use of unsolicited proposals.

Aside from relying on unsolicited proposals, senior MSB/COD officials were unable to adequately explain the criteria used to select the 27 projects from among the proposals received. We were told that 22 of the projects were selected jointly by SBA's former Deputy Administrator and MSB/COD's former Associate Administrator without input from other MSB/COD officials. In selecting the remaining five projects, the former Associate Administrator, MSB/COD, relied on an internal evaluation committee to identify, from among the unsolicited proposals, those organizations that appeared capable of providing the following types of assistance on a national basis: (1) development of new business opportunities, (2) financial management, (3) loan packaging and business planning, (4) construction management, and (5) surety bonding.



These forms of assistance are generally consistent with those authorized by the legislation.

We reviewed the contract files for all 27 projects to determine whether the scope of work seemed to be consistent with the legislative objectives of the program and found that in 15 cases it was. However, because these projects covered a variety of activities we were unable to identify any consistent program theme. Rather, the contracts seemed to move the program in scattered directions. For example, some contracts were awarded to provide management assistance directly to 8(a) firms. Others were awarded for research projects such as a \$120,000 contract to analyze Federal procurement opportunities and identify products suitable for 8(a) contracting. Still others were awarded that had a private sector orientation such as a \$100,000 contract awarded to an association to encourage large corporations to establish minority enterprise investment companies.

Aside from our concern regarding the overall direction of these 15 contracts, we have reservations regarding the propriety of the remaining 12. These are discussed in the following section.

#### MANY CONTRACTS CONTRIBUTED LITTLE TO PROGRAM OBJECTIVES

In our judgment, 12 of the 27 contracts did not effectively further the program. Problems associated with the 12 contracts fall into three categories:

- Projects which appear to be outside the legislative objectives of the 7(j)(10) program.
- Costly projects which benefit only one or a few firms.
- Projects which SBA should be performing inhouse.

On the following pages, we discuss 9 of the 12 questionable contracts as examples of the three major problem areas stated above.

#### Contracts outside the program's legislative objectives

Although the funds SBA allocated to the 7(j)(10) program were intended to be used for the purposes of that program--to provide services exclusively for 8(a) firms--SBA made three awards to organizations which had little or no relationship to 8(a) firms. While these awards did not further the purposes of the 7(j)(10) program, they did fall within the purposes of 7(j)(1-9). Since funds are appropriated for 7(j) and allocated by SEA to the 7(j)(1-9) and 7(j)(10) programs, the use of 7(j)(10) funds for these awards is a matter of agency policy and management. These awards are discussed briefly on pages 24 and 25.

### Example 1

SBA approved a \$200,000 grant to the city of Buffalo, New York, on April 23, 1980, to fund a Labor Surplus Area Demonstration Outreach Project and assigned the responsibility for the day-to-day administration of the grant to the Associate Administrator for Procurement Assistance. The project's primary objective was to reduce unemployment and underemployment in Buffalo. It was expected that by increasing Government contracting with Buffalo firms, employment in the area would correspondingly increase. Accordingly, the grant specified that the city would develop a data base of Buffalo area firms from which 15 firms would be identified as having an immediate capability to successfully bid on Government contracts.

As of June 1981, a data base of 87 firms had been identified. Instead of selecting only 15 firms as planned, SBA agreed to allow the city to work with all the firms. When asked how many 8(a) firms were included in the data base, an assistant to the Associate Administrator of the Procurement Assistance Division told us he did not know because the project's focus was not 8(a) firms; consequently, the number of 8(a) firms which participated in or benefited from this project was of little importance. Our comparison of the names of the 87 firms included in this project's data base with an SBA listing of 8(a) firms located in the Buffalo area about the time this grant was awarded revealed that no 8(a) firms were included in the data base. 1/

The Associate Administrator for Procurement Assistance told us that this project was outside the scope of the 7(j)(10) program. According to him, 7(j) funds were used because they were the only funds available at the time.

### Example 2

SBA awarded a contract in April 1980, for \$26,860 to the National Center for Urban Ethnic Affairs. The primary objective of this contract was to stimulate commercial revitalization in urban neighborhoods by making community organizations and local businessmen aware of SBA's programs. To accomplish this objective, the center conducted three regional conferences in Washington, D.C.; Chicago, Illinois; and Eugene, Oregon; and a national conference to acquaint neighborhood revitalization specialists with SBA programs. Participants at the conferences were asked to make recommendations on ways that both SBA and neighborhood development organizations could improve revitalization efforts. The results of the conferences were summarized in an October 1980 report prepared by the center.

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1/There were only five 8(a) firms in the Buffalo area as of March 1980, about 1 month before the contract was awarded.

In reviewing the contract and the final report prepared by the center, we found that no reference was made to 8(a) firms. In addition, the SBA official responsible for evaluating the contract stated that this contract had no relationship to the 7(j)(10) program at all.

### Example 3

On September 30, 1980, SBA awarded a \$100,000 contract on the basis of an unsolicited proposal to a New York consulting firm. The purpose of this contract was to provide technical and advisory assistance to U.S. minority firms interested in expanding their businesses in Africa or other third world countries. The consultant's proposal stated that companies which seek new business ventures in Africa require a wider range of advisory services in the start-up phase than in most other parts of the world; therefore, an informed source such as his firm was needed to interpret events on the African continent in a manner understandable to those contemplating new business ventures there.

Our review of the contract file showed that the proposal submitted to SBA made no correlation between interest of 8(a) firms and the contract's objectives. In addition, the Deputy Director, Office of Development Assistance, told us his office had no data on the level of interest 8(a) firms had in developing new businesses in Africa. We also found that about half of the contract amount--\$48,000--was reserved for the contractor to attend a third world exposition in China and other travel related expenses.

SBA procedures require a cost accounting audit on contracts exceeding \$100,000. In accordance with this requirement, in January 1981, SBA attempted to review this contractor's records but was unable to verify even the existence of the firm. Consequently, the contract was canceled and no funds were spent. Although the contract was canceled, we believe SBA should have questioned, in the beginning, whether this project was within the framework of the 7(j)(10) program.

### Contracts made for large dollar amounts where benefits were limited to one or a few firms

Aside from awarding contracts outside the scope of the 7(j)(10) program, six were made for large dollar amounts which benefited only nine 8(a) firms. Given limited program resources, such contracts obviously restricted SBA's ability to service a greater proportion of the 1,800 to 2,100 firms which participated in the 8(a) program during fiscal years 1979 and 1980.

We found that SBA had no written policy concerning the amount of management and technical assistance which should be made available to individual 8(a) firms. In addition, we noted several cases where large sums were spent to assist just a few firms.

For example, during fiscal year 1980, two 8(a) firms (representing one-tenth of 1 percent of the firms in the 8(a) program) received assistance totaling almost 28 percent of the \$2 million allocated to the central office for the 7(j)(10) program. We were told that substantial assistance was provided to these 8(a) firms because they were candidates to receive sizable Federal contracts under the 8(a) pilot program <sup>1/</sup> and consequently, the amount of assistance they received was justified in relation to the contract amounts. In our opinion, however, the heavy concentration of assistance for only two firms created a wide disparity between assistance available to the two firms and the other 2,100 firms in the 8(a) program. Details of the assistance provided to these two firms are summarized below.

#### Example 1

SBA awarded a \$100,000 7(j)(10) contract in May 1980 to a New Jersey consulting firm. Although the consultant was asked to provide management assistance to 8(a) firms in general, the primary objective of this contract was to assist one particular 8(a) firm in resolving problems it was experiencing in rendering computer services to a Federal agency. SBA also requested the consultant to report on the feasibility of this particular 8(a) firm acquiring an existing micrographic business. <sup>2/</sup> Part of the computer services this firm was providing to the Government agency related to the micrographics industry.

The consultant reported that acquiring the micrographic business as well as converting the 8(a) firm totally into this industry were viable options if SBA was willing to commit substantial financial, technical, and professional assistance to the firm. SBA agreed to provide the necessary assistance and modified the scope of work to require the consultant to assist the 8(a) firm in reorganizing its management and redesigning its business plan to reflect the transition from a computer servicing business to a micrographics producing business. This modification increased the contract amount from \$100,000 to \$295,000.

In addition to the \$295,000 contract, SBA awarded a \$100,000 contract in June 1980 to a second consulting company which has assisted only the 8(a) firm described above. According to the

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<sup>1/</sup>Unlike the regular 8(a) program where Federal agencies voluntarily set aside contracts for program participants, the pilot program's legislation authorizes SBA to demand 8(a) contracts from a Federal agency selected by the President. The Department of the Army was selected as the pilot agency on January 30, 1979.

<sup>2/</sup>Micrographic production entails filming large amounts of information so that it can be stored, retrieved, and delivered in an efficient manner.

Deputy Associate Administrator for Business Development, because the 8(a) firm had only limited experience in the micrographics industry, this contract was intended to provide it with technical support. This contract was also intended to assist any other 8(a) firms in the micrographics field.

Although the scope of work for both contracts indicated that the contractors could serve a number of 8(a) clients, as of April 1981, all services had been provided exclusively to the one 8(a) firm described above. Overall, not only had SBA awarded two 7(j)(10) contracts for almost \$400,000 which benefited this 8(a) firm, but it also provided the 8(a) firm with about \$1.5 million in other financial aid, including a \$650,000 loan and \$850,000 for business development expenses. Funds provided 8(a) firms for business development expenses generally do not have to be repaid and are to be used for the purchase of capital equipment necessary for efficiency and growth.

Responding to our questions concerning SBA's rationale for targeting such a large amount of money to one firm, the Deputy Associate Administrator for Business Development, who was responsible for the day-to-day administration of these contracts, explained that SBA had envisioned helping other 8(a) firms but, no other firms requested assistance. Nevertheless in his opinion, the assistance given to the 8(a) firm was justified because forecasts for the micrographics industry indicated that it had excellent growth potential and SBA believed the 8(a) firm had the capability to develop and succeed in this industry. Since receiving the management and financial assistance from SBA, the firm, as of April 1981, had received only one 8(a) contract for about \$400,000.

#### Example 2

Because it had been unsuccessful in obtaining timely and complete financial data, SBA contracted with an accounting firm in March 1980 at a cost of \$83,150 to audit the financial statements of an 8(a) fuel oil distributing company. SBA had informed the 8(a) company in January 1980 of its intention to award the accounting contract and notified it again, in April 1980, that the services had actually been obtained and to expect a meeting with the auditors. This contract was originally to expire by May 31, 1980, however, by August 1980, the 8(a) firm still had not accepted the accounting assistance and the owner had indicated that he preferred to obtain services from another accounting company at his own expense.

Although the contract period was extended several times to March 1981, the 8(a) firm did not accept the accounting assistance. SBA finally closed the contract in April 1981. Since the funds had been obligated during fiscal year 1980 but not spent, they were returned to the U.S. Treasury and lost to the program.

Contracts were awarded  
to perform functions SBA  
should perform in-house

In our judgment, SBA supplemented internal resources by awarding three contracts in fiscal year 1979 to perform functions which it should have performed itself. We discussed these contracts with senior MSB/COD officials and other SBA staff responsible for monitoring the contracts. We were told that the contracts were selected on a subjective basis and that no documentation existed to support the awards.

We have criticized various Federal agencies for using consulting services to perform work that should have been performed in-house. For example, in a March 1980 report on 111 consulting service contracts, 1/ awarded by six Federal agencies, we questioned the need for many of the contracts because (1) little or no consideration was given to in-house capability before awarding the contracts and/or (2) frequently little use was made of the studies' result. Similarly, the President, in a May 1977 memorandum to all executive branch agencies, requested that they stop "without delay" the use of consultants to perform work of a policymaking or managerial nature which should be performed directly by agency officials. The President's concerns were later reflected in Office of Management and Budget Bulletin 78-11 dated May 5, 1978. This bulletin prohibits the use of consulting services in performing work of a policy/decisionmaking nature which is the direct responsibility of agency officials.

In our opinion, the three contracts cited below are of a policymaking or managerial nature which should have been performed by SBA staff. These three contracts totaled about \$313,000, or 16 percent, of the 7(j)(10) funds allocated to the central office in fiscal year 1979.

Example 1

On September 28, 1979, SBA awarded a \$124,890 contract to an 8(a) consulting firm to assist SBA personnel in establishing criteria concerning entry into and graduation from the 8(a) program. While it is generally recognized that an individual may be at a social disadvantage because of race or national origin, economic disadvantage is more difficult to assess. Consequently, SBA requested this consultant to develop guidelines for determining when a firm is economically disadvantaged and, thus, eligible for 8(a) approval. In addition, the consultant was asked to develop a method for determining when an 8(a) firm has become competitive and viable in its industry and, therefore, should be graduated from the 8(a) program.

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1/"Controls Over Consulting Service Contracts At Federal Agencies Needs Tightening" (PSAD-80-35, Mar. 20, 1980).

The final contract amount was increased to \$153,000 because SBA expanded the scope of work by requiring the consultant to obtain feedback from 8(a) program personnel and 8(a) companies on the completed guidelines and to train SBA district officials who would be ultimately responsible for implementing them. On September 30, 1980, the consultant submitted a final report to SBA which contained 8(a) program eligibility and graduation guidelines.

According to a senior MSB/COD official who was responsible for the daily administration of this contract, SBA did not have the inhouse expertise necessary to perform the scope of work required in this contract, and the final product was extremely well done. However, this official also told us that although SBA received the report in September 1980, as of June 1981 no formal actions had been taken to adopt the guidelines because of personnel changes at the SBA Administrator and MSB/COD Associate Administrator levels--key individuals responsible for the program.

Although we believe the consultant's final report was consistent with the contract terms, the contract itself was contrary to the intent of the Office of Management and Budget Bulletin 78-11 which prohibits the use of consultants to perform work of a policy/decisionmaking nature.

#### Example 2

On September 28, 1979, SBA awarded a \$60,263 contract to a consulting firm to develop a manual on the 8(a) program. The purpose of the manual was to explain to minority firms

- what the 8(a) program is--its purpose and goals;
- how the 8(a) program works--the approval, marketing, and development processes;
- what a minority firm can expect from SBA; and
- what SBA expects from 8(a) firms.

However, before this contract was awarded, SBA issued standard operating procedures which established policies, procedures, requirements, and guidelines for all activities within MSB/COD, including the 8(a) program. The procedures became effective on September 4, 1979. We compared these procedures with the contractor's scope of work and found much duplication. Moreover, our comparison of the completed manual with the published procedures showed the manual essentially condensed and offered a simplified explanation of the 8(a) process as described in the standard operating procedures.

In our opinion, SBA could have used information readily available in the standard operating procedures and prepared the

manual inhouse. The SBA official responsible for monitoring this contract agreed that SBA had the inhouse technical capability to develop the manual, but stated that due to limited manpower, a consultant was hired. According to him, the manual received very limited distribution to the general public and even SBA regional staff. He also said that the manual is now obsolete because it does not reflect revisions to the 8(a) program contained in Public Law 96-481 which became effective October 21, 1980.

### Example 3

SBA awarded a consulting firm a \$99,334 contract, on September 28, 1979, to study and redesign the procedures used to admit firms to the 8(a) program. The study was to specify the elements of the existing system; describe its operation at the national, regional, and district levels; identify system impediments; and recommend corrective action.

We were told by MSB/COD's Director, Office of Eligibility, who was responsible for monitoring this contract, that although the agency had the in-house capability to perform the work done by the consultant, it probably did not have the time. The contractor's final report, which was issued in February 1980, contained 27 recommendations aimed at improving the application process. By June 1981, SBA had fully or partially implemented 15 of these recommendations; however, the remaining 12 had not been implemented because SBA considered them to be inappropriate or impractical.

### INADEQUATE MONITORING OF 7(j)(10) CONTRACTS

SBA's central office did not adequately monitor contracts which it awarded under the 7(j)(10) program in fiscal years 1979 and 1980. We believe this resulted from the lack of procedures describing the duties of individuals responsible for monitoring these contracts. Because they did not have a clear understanding of their duties and responsibilities, SBA lacked adequate information concerning contractors' performance.

The Office of Development Assistance, which organizationally falls under the Associate Administrator for MSB/COD, is charged with procuring 7(j)(10) services from selected organizations. This office had a professional staff of four and the Office Director served as the primary contracting officer. Although the Director was ultimately responsible for the day-to-day management of the 27 7(j)(10) contracts awarded during fiscal years 1979 and 1980, other Office responsibilities necessitated that he delegate certain contract administrative functions to other MSB/COD officials outside his office. Although these officials had no authority to modify the contract terms or make payment to the contractor, their primary function was to monitor and evaluate the technical performance of contractors SBA hired. Consequently,



these individuals were generally called contracting officers' technical representatives (COTR).

We spoke with 10 COTRs and several other key MSB/COD officials responsible for 24 of the 27 contracts to clarify the scope of their work and to determine the contract results. Some COTRs told us that they were responsible for ensuring that the contractor provided the services spelled out in the contract. Others told us their principal responsibility was to receive contract invoices and progress reports which they used as the basis for recommending payment to the contractor. We found several other instances where COTRs were generally unaware of what duties they were expected to perform. On two contracts, for example, where SBA records indicated that an employee had been designated as the COTR, our talks revealed that this individual was unaware of this designation. Also, when asked how they were notified of their COTR status, responses varied from getting a written notice, to receiving an oral briefing, to receiving no notification at all.

Because no written guidelines existed describing the duties and responsibilities of COTRs when contracts were awarded, COTRs usually had nothing more to rely on than their own personal judgment. To correct this problem, interim guidelines were issued in December 1980 clearly defining the COTRs duties. According to the guidelines, the COTR is to provide technical guidance and direction and assume responsibility and accountability for the technical adequacy of the work performed under 7(j)(10) contracts. The guidelines state that to monitor contractor's performance the following factors should be considered when selecting a COTR:

- The individual's demonstrated interest.
- The individual's technical knowledge of the subject matter.
- The amount of time an individual can devote to the monitoring duties.

In addition, the guidelines outline specific responsibilities of the COTRs during contract performance.

We believe that the guidelines are sufficiently definitive, and if properly implemented should ensure that employees designated as COTRs have the technical expertise needed to adequately monitor and evaluate contractors' performances. To ensure that these interim guidelines remain an integral part of the program's administration, we believe they should be incorporated into the program's standard operating procedures which are currently being revised.

#### RECENT SBA ACTIONS

In addition to issuing interim guidelines regarding COTRs, SBA has taken other recent actions to improve the management of

the 7(j)(10) program. For example, a committee of five senior MSB/COD officials was established in November 1980 to formulate program policy and establish criteria for funding decisions. As part of its duties, the committee was responsible for determining the merit, impact, and benefit of 7(j)(10) proposals and advising on the allocation of fiscal year 1981 program funds. According to one of MSB/COD's Deputy Associate Administrators, the committee was needed to ensure that future 7(j)(10) projects provide benefits which favorably affect a majority of 8(a) firms rather than continue the past practice of giving large amounts of assistance to only a few firms. Although the committee serves only as an advisor to the Associate Administrator, MSB/COD, because its recommendations reflect the input of senior MSB/COD officials, we believe it can be effective in improving the program's administration by developing program policies and project selection criteria. The committee does not, however, represent a substitute for an overall program plan.

In November 1980, SBA also established new procedures requiring the regions to formulate an advance estimate of fiscal year 1981 7(j)(10) funding needs. The data collected focused on monetary requirements as well as assessed regional needs in terms of the kinds of assistance or services 8(a) firms needed. In our opinion, because SBA regions are required to relate data on funding requirements with data on the actual type of assistance 8(a) firms need, the central office can now better ensure that program funds are allocated to the regions in accordance with program needs and priorities.

#### CONCLUSIONS

SBA has not established a plan for administering the 7(j)(10) program which (1) defines program goals and objectives in relation to its legislative mandate, (2) sets priorities to achieve these goals and objectives, and (3) measures results through organized, systematic feedback. While this program deficiency can be attributed in part to the newness of the 7(j)(10) program, the continued absence of a program plan has been caused, in our opinion, by SBA's failure to emphasize planning as a basic program function.

The absence of a program plan has had repercussions on SBA's administration of the 7(j)(10) program. Specifically, the lack of planning has weakened the overall administration of the program, leading to subjective funding decisions and a reliance on unsolicited proposals to satisfy program requirements. The lack of planning and the inherent failure to define and rank program goals and objectives have also contributed to the award of contracts which seem to move the program in scattered directions and which have not been adequately monitored by SBA. Finally, in numerous cases, the absence of a 7(j)(10) program plan resulted in the expenditure of limited program resources for questionable purposes.

To improve this situation the SBA Administrator, and key officials within MSB/COD, must emphasize the importance of planning and make a commitment to implement planning as an integral part of the 7(j)(10) program. Also, after committing itself to planning, SBA must establish a structure in which it can occur. This could be accomplished through the recently created 7(j) committee.

#### RECOMMENDATIONS

To establish an effective planning process as a basic and integral part of SBA's 7(j)(10) management strategy, we recommend that the Administrator, SBA, direct the Associate Administrator, MSB/COD, to:

- Define and rank (1) 7(j)(10) program goals and objectives consistent with the program's legislative mandate, (2) the number and needs of program participants, and (3) the availability of 7(j)(10) resources. The 7(j) committee represents an excellent structure for accomplishing this.
- Develop a written plan describing how program resources will be used. This plan should be compatible with the agency's defined program goals and objectives.
- Revise the 7(j)(10) standard operating procedures to clarify
  - the criteria and process for the allocation of 7(j)(10) program resources,
  - the criteria for 7(j)(10) project selection, and
  - the responsibilities of individuals charged with contract monitoring.

#### SBA COMMENTS

SBA stated that it agreed with our recommendations and has initiated corrective action. More specifically, SBA stated that it has begun to define and prioritize 7(j)(10) program goals and objectives as well as develop a written program plan. SBA also stated that the revised Standard Operating Procedures, scheduled for issuance during September 1981, will clarify the 7(j)(10) allocation process and the duties of contract monitors. SBA also commented that future 7(j)(10) projects will be selected through competitive cooperative agreements instead of through sole-source procurements. (See app. IV.)

## CHAPTER 4

### SCOPE AND METHOD OF THE REVIEW

We conducted our review at SBA's New York, Philadelphia, Chicago, and San Francisco regional offices and at eight district offices located in those regions. Work was also performed at SBA's central office in Washington, D.C.

We interviewed SBA officials responsible for the 7(j) programs in the central office. These included: the Associate Administrator for Capital Ownership Development and his assistants; the Director, Office of Development Assistance; and the Chief Counsel for Special Programs. In the four regional and eight district offices, we interviewed assistant regional administrators, district directors and assistant district directors, various management assistance officers, 7(j) coordinators, and others responsible for administering the program at the local level. We also interviewed 25 call contractors associated with the program.

We reviewed SBA's policies, regulations, and procedures for the two 7(j) programs to determine program objectives. We also reviewed reports issued by two SBA consulting firms, by SBA internal auditors, and by our office that have been critical of the program over the past 7 years (see app. II).

We selected four SBA regions for the review of call contracts based on the number of 7(j) regional call contracts awarded during fiscal years 1978, 1979, and 1980. The contracts administered by these regions represented 49 percent of the total number of contracts awarded nationally (140 of 284 contracts) and about 58 percent of the total amount of funds spent on regional call contracting in those years. We reviewed the two contract types (competitive and noncompetitive 8(a)) in these regions and reviewed about 25 percent of the contracts awarded during the 3-year period. Our stratified random sample included 16 competitively awarded contracts and 24 noncompetitive 8(a) contracts. Of the 24 noncompetitive 8(a) contracts, 10 were funded from the 7(j)(10) program, while 14 were funded from the 7(j)(1-9) program. The following table shows the number of contracts selected in each SBA region.

<u>Region</u>	<u>Awarded</u>	<u>Selected by GAO</u>	<u>Percent of total</u>
New York	50	11	22.0
Chicago	34	11	32.4
Philadelphia	31	8	25.8
San Francisco	<u>25</u>	<u>10</u>	40.0
Total	<u>140</u>	<u>40</u>	28.6

We randomly sampled individual task orders issued from each of the 40 contracts selected. We excluded task orders that were

later canceled or that were not completed at the time of our review. We reviewed 1,425 task orders representing 44 percent of the total number of task orders issued under the 40 contracts we selected. In addition, we also gathered information from a few task orders prepared under contracts where indirect assistance was provided. Indirect assistance includes task orders for group training, seminars, special studies, and for assistance to SBA itself.

We gathered specific data on each type of call contract, such as length of time to complete a task order, contract cost per day, cost per client, and who performed the work (contractor or subcontractor). We collected data at the eight district and four regional offices where task orders were issued, and when the information was missing in the SBA files, we attempted to collect it from the call contractors' offices.

To obtain the views of recipients of management assistance, we administered a questionnaire to a random sample of 302 small business owners. For the sake of economy, we attempted to contact 10 recipients from each of the 40 contracts reviewed. Where the recipient could not be contacted by telephone, we used up to five replacements and were able to obtain 302 completed interviews.

The responses from our interviews represent only clients we were able to contact and who were willing to be interviewed. In some cases, clients were reluctant to be interviewed, while in other cases we were unable to make contact because the client may have gone out of business or may have moved without leaving a forwarding number. Thus, the data collected is biased to the extent that it only includes information from recipients still in business.

During the preliminary stages of the review, we met at the SBA central office with the Director, Office of Development Assistance, and his Deputy to discuss their views of our contract selection process, task order sampling process, and telephone interview form. They agreed that the results from those four regions and associated district offices should be representative of the program nationally with minor local variations.

In addition to the regionally administered contracts, we reviewed all 27 7(j)(10) contracts, grants, and cooperative agreements administered by central office during the same 3-year period. We wanted to determine: (1) the basis for contract awards, (2) who was helped, and (3) the costs involved.

Time limitations made it impractical to review and measure the quality of task-order preparation, the quality of the consulting reports, or the applicability of report recommendations, other than through client interviews. Additionally, we did not attempt to review the qualifications of SBA's Management Assistance Officers or the individuals who coordinated 7(j) assistance in the

district offices. However, we believe that the approach we selected in conjunction with SBA staff fairly presents the status of the 7(j) programs.

REPORTS ISSUED BY GAOPURSUANT TO PUBLIC LAW 95-507

1. "Status Report on Small and Small Minority Business Subcontracting and Waiver of Surety Bonding for 8(a) Firms" (CED-80-130, Aug. 20, 1980)

The Small Business Administration has not fully implemented the section 7(j)(3) subcontracting program and the section 8(a)(2) surety bond waiver provision of the Small Business Act. Under section 7(j)(3), SBA, with the assistance of a presidentially appointed Advisory Committee, is to encourage large businesses to place subcontracts with small firms. Problems impeding progress in implementing section 7(j)(3) include

- delays in establishing the presidentially appointed Advisory Committee,
- the lack of specific committee functions and goals, and
- the exclusive focus of the committee on Federal subcontracting instead of on private sector subcontracting.

Despite problems in implementing section 7(j)(3), SBA has taken several actions to help small and small minority businesses compete in the private sector.

Under the surety bond waiver provision, the SBA Administrator is authorized to waive any bond required by a Government procurement officer on contracts under SBA's section 8(a) Business Development Program. This provision also has not been implemented. A major cause for this appears to be a disagreement or misunderstanding between two SBA offices concerning who was responsible for implementing the provision.

GAO makes recommendations to help alleviate the problems impeding implementation of the two provisions.

2. "Most Borrowers of Economic Opportunity Loans Have Not Succeeded in Business" (CED-81-3, Dec. 8, 1980)

SBA's Economic Opportunity Loans have not been an effective way to help disadvantaged people start or improve their own businesses. More borrowers have defaulted on the loans than have repaid them. Many who paid off their loans have not remained in business. Furthermore, the

outlook for borrowers with active loans is not good since many are in financial difficulty.

The program provides services to borrowers whose limited capital, inexperience, and other factors make high rates of loss and business failure unavoidable. Nevertheless, program results could improve if SBA changed the way it manages the program and took measures to help borrowers overcome their undercapitalization and inexperience.

If program results do not improve, congressional oversight committees should determine whether the program's objectives could be better achieved by transferring its funds to other Federal programs for disadvantaged businesses.

3. "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective" (CED-81-22, Jan. 23, 1981)

SBA's use of a special pilot program which gives it the authority to demand contracts for the 8(a) program has not been successful.

SBA (1) did not have enough information to properly assess and match 8(a) firms' capabilities with pilot procurements and (2) approved 8(a) firms to perform pilot contracts without knowing their capabilities. GAO believes SBA made a poor choice of those firms that were awarded the three initial pilot contracts.

There is a difference between Army, which was selected as the pilot agency, and SBA over the way the pilot program can be used most effectively. GAO is recommending that the Congress allow further testing of the pilot program in an additional agency that, unlike the Army, has not demonstrated its complete support of the 8(a) program.

4. "The SBA 8(a) Procurement Program--A Promise Unfulfilled" (CED-81-55, Apr. 8, 1981)

SBA's 8(a) Procurement Program gives noncompetitive Government contracts and other aid to help disadvantaged business owners become self-sufficient. Few aided firms have graduated as competitive businesses. The bulk of 8(a) contracts has gone to a select group of firms. Many firms have not built up commercial sales, rely on 8(a) contracts, and view the program as an end in itself.

SBA is reluctant to remove from the program firms that are needed to meet yearly contract volume goals. Because of this, other disadvantaged firms cannot participate. Insufficient staff, vague graduation criteria, and poor records



also hamper the program's effectiveness. Further, the small business community is concerned about the program's future impact on its businesses.

GAO proposes several alternatives and recommendations to restructure the 8(a) program and resolve its problems.

5. "SBA's Progress In Implementing The Public Law 95-507 Subcontracting and Surety Bond Waiver Provisions Has Been Limited" (CED-81-151, Sept. 18, 1981)

The Small Business Administration, working with a Presidential Advisory Committee, has not fully implemented the small business subcontracting provision. The committee has focused on obtaining subcontracts from Federal contractors rather than private businesses not heavily engaged in Federal procurements. SBA's efforts have been limited primarily to 1-year agreements with four corporations under which it refers potential subcontractors to them. The corporations have awarded only two subcontracts to the small businesses SBA referred.

SBA has not issued procedures for identifying and handling surety bond waivers; consequently, no waivers have been granted.

GAO recommends changes SBA should make to maximize subcontracting opportunities for small businesses. Also, GAO suggests that the Congress consider extending the bond waiver provision for 2 years and require SBA to report to the Congress on the provision's effectiveness.

PRIOR REPORTS BY GAO, SBA INTERNAL AUDITORS,  
AND PRIVATE CONSULTANTS UNDER CONTRACT TO SBA  
REGARDING SBA's MANAGEMENT ASSISTANCE PROGRAMS

The following are summaries or excerpts from studies or reports relating to SBA's Call Contracting Program. 1/

1. GAO report entitled "The Small Business Administration Needs To Improve Its 7(a) Loan Program" (GGD-76-24, Feb. 23, 1976).

- Lack of coordination between SBA divisions in providing management assistance.
- Loan borrower's need for management assistance not identified at time of loan approval.
- Lack of effective followup system on management assistance recommendations.
- Results of management assistance program had not been evaluated since 1969.

In 1976 we recommended that SBA improve coordination between the district office unit responsible for providing management assistance and the unit responsible for servicing loans (portfolio management). We also recommended that SBA evaluate the impact of management assistance to identify areas needing improvement. Our recent audit work indicates continuing deficiencies in these areas. Specific problems are discussed in chapters 2 and 3 of this report.

2. Price Waterhouse and Company report on the Evaluation of the 406 Call Contracting Program (Apr. 1976). The evaluation was conducted under an SBA contract.

- Management assistance resources are not always effectively utilized.
- The size and nature of the call contractors are not given sufficient consideration in the contracting procedures.
- Consulting quality is not given sufficient consideration in the proposal evaluation process.

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1/See chapter 1 for additional discussion of these reviews.

--Assistance is not sufficiently directed toward the nature of the client and his needs.

--Administrative procedures are not always consistent.

The Price Waterhouse report made recommendations aimed at improving SBA's administration and operation of the program, with specific attention for resolving those problems mentioned above. They recommended that SBA

--standardize repetitive tasks to reduce duplication of effort.

--evaluate all management assistance programs to improve coordination.

--lower the subcontracting limit and use more specialized consultants to improve the quality of services rendered.

--improve problem identification techniques to improve effectiveness of tasks.

--use followup tasks to assist in implementing recommendations.

--improve forecasting of anticipated management assistance requirements to better serve clients.

The report concluded that while the Call Contracting Program is an effective tool in assisting small businesses, the long-run benefits of the program could be much greater. Noting that there had been no significant improvement in the success rate of the program over the previous 3 years, the Price Waterhouse report stated that more substantial improvements in the administrative procedures would be necessary to achieve improvements in the program's success rate.

3. Rockville Consulting Group, Inc. report of A Major Impact Study of SBA Management Counseling and Training Programs (Jan. 1980). The study was conducted under an SBA contract.

The Rockville study provided a quantitative and qualitative evaluation of the effectiveness of all of SBA's counseling and training programs. Part of the evaluation focused on the short- and long-run impact of management assistance programs on participants. Some of the study's findings were that:

--Different types of SBA client firms responded very differently to the various management assistance programs offered and to the various types of district office operations. In some cases, the assistance provided was of substantial help while, in other cases, it caused great harm.

- Properly matching SBA's various management assistance resources with SBA programs in the proper mix could triple the impact.
- Actual program goals and objectives centered on maximizing the number of reported management assistance clients, rather than on providing positive changes in client behavior.
- The impact of the Call Contracting Program peaked in 1975 and declined sharply since then.
- Only about 20 percent of the district offices reported that they use any evaluation process that could possibly determine whether call contractor diagnostic conclusions were appropriate and were accepted by the client.

Several recommendations were made in the report, including typesetting clients to provide the management assistance services that would be of most benefit to the client and implementing an evaluation program to determine the effectiveness of management services on the client. Regarding the Call Contracting Program, the study concluded that the program was effective with the more experienced business owners/managers. According to the study, however, this type of client dropped from 59 percent of call-contracting recipients during 1975 to 25 percent during 1977. Furthermore, the report concluded that the present trend of allocating call-contracting services would lead to a zero impact on clients since less experienced clients receive no significant benefit from the services.

4. GAO report entitled "Most Borrowers of Economic Opportunity Loans Have Not Succeeded in Business" (CED-81-3, Dec. 8, 1980).

In our report on SBA's Economic Opportunity Loan program we commented that loan clients were not receiving SBA management assistance early enough to affect crucial decisions, nor were these clients receiving assistance in sufficient scope and duration to develop "entrepreneurial and managerial self-sufficiency." We recommended that SBA test the effectiveness of providing more intensive and timely management assistance as one technique for alleviating borrowers' undercapitalization and inexperience.

5. SBA Internal Audit report "Review of the 406 Call Contracts Program," SBA Internal Audit Division (Nov. 1974).

- In determining overall needs for call contracting assistance, SBA (1) used two separate and uncoordinated systems and procedures (2) offered unclear or insufficient justification, and (3) provided no evidence that all other SBA programs were considered.

- SBA's administration of the program displayed (1) a lack of detail and justification for task orders issued, (2) insufficient review and monitoring of contractor performance and staffing, (3) inappropriate use of contract funds, and (4) little assurance that the completed effort of the call contractor is consistent with the contract terms and conditions.
- Formal follow-up on management assistance given was rarely accomplished, resulting in insufficient assurance of the effectiveness of the contractors' performance or of the management assistance given.

SELECTED RESPONSES BY RECIPIENTS OFSBA's 7(j)(1-9) CALL-CONTRACT ASSISTANCE

The following are selected questions and the answers furnished by 302 recipients of call-contract management and technical assistance. Because some recipients gave more than one answer to a particular question, the total number of responses may exceed 302.

1. How long after your last contact with the consultant did you get the report?

	<u>Number</u>	<u>Percent</u>
Within 1 month	158	52
Between 1 and 2 months	62	21
Between 2 and 4 months	22	7
Over 4 months	10	3
Did not answer	52	17

2. Of how much use, if any, was the written report?

	<u>Number</u>	<u>Percent</u>
Of very great use	48	16
Of great use	55	18
Of moderate use	50	16
Of some use	43	14
Of little or no use	70	23
Did not respond	41	13

3. How much of what was recommended did you actually try to do?

	<u>Number</u>	<u>Percent</u>
All or almost all	65	21
Most	41	13
About half	35	12
Some	38	13
Little if any	57	19
Did not answer	68	22

4. Would you recommend this consultant to your business associates?

	<u>Number</u>	<u>Percent</u>
Definitely yes	131	43
Probably yes	75	25
Uncertain	30	10
Probably no	19	6
Definitely no	46	15
Did not answer	3	1

5. If the need arose, would you request this consultant again?

	<u>Number</u>	<u>Percent</u>
Definitely yes	134	44
Probably yes	70	23
Uncertain	21	7
Probably no	22	7
Definitely no	53	18
Did not answer	3	1

6. After the assistance was provided, did SBA contact you about the assistance you got?

	<u>Number</u>	<u>Percent</u>
Yes	165	54
Uncertain	33	11
No	102	34
Did not answer	2	1



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

AUG 28 1981

Mr. Henry Eschwege  
Director  
Community and Economics Development Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

As requested by your letter of July 30, 1981, we are pleased to give our views on the draft report entitled, "SBA's 7(j) Management Assistance Program Reaching Limited Number of Clients: Changes Needed."

The General Accounting Office review and recommendations for improvement show that this Agency has been headed in the right direction, but needs to focus more sharply on certain areas. We have been aware of this and appreciate the General Accounting Office's corroboration of our views.

It should be noted that your report centers around several issues which occurred during the 1979-80 transitional period of this program from the Management Assistance Division to the Minority Small Business Division. The Minority Small Business Division's field staffs were totally unfamiliar with the logistics involved in the administration of the Call-Contracting Program. Further, in a majority of the field offices, transition was not as smooth as it should have been. There were problems with low employee morale, lack of communication surrounded by uncertainties involving personnel transfers and possible employment displacements, and continuous unclear communications relating to the 7(j) eligibility criteria, i.e. non-minority vs. minority.

Finally in late 1979, after obtaining full responsibility of the program and after permanent personnel positions were established, the Minority Small Business Division attempted to train field staff. This process was curtailed because of a limited training



budget. Therefore, an extensive training program was not developed or further implemented for field staff. We fully believe that continuous training and follow-up is necessary to successfully carry out any program transition. This will continue to be the case in Fiscal Year 1982, and probably into Fiscal Year 1983, as we implement P.L. 95-224 by using cooperative agreements in the 7(j) program.

We also realized the inconsistencies involved within the 7(j)(10) Program and, therefore, early in Fiscal Year 1980 we initiated and stressed the importance of an instrument like the 7(j) Committee. This Committee has now agreed on the release of a cooperative agreement announcement on a competitive basis to acquire 7(j) consultants for Fiscal Year 1982. By doing so competitively, we will eventually reduce to zero the sole-source procurements such as the ones described as being "ineffective" in the Report.

With respect to the individual recommendations the following actions are being taken.

#### Recommendation

"(1) We recommend that the Administrator, SBA direct the Associate Administrator for the Bureau of Minority Small Business and Capital Ownership Development to:

- develop procedures for systematically screening all requests for management assistance which identify the types of assistance programs available, and the situations and clients these programs are best capable of helping. Consideration should be given to designating a qualified individual in each district office to receive and evaluate all requests for management and technical assistance and refer them, as appropriate, to the Management Assistance Division or the Bureau of MSB&COD;"

#### Response

We are addressing this in the Regional Operating Plan for Fiscal Year 1982 i.e., "To establish better coordination at the District Office level among Management Assistance, Financial Assistance, Legal and MSB&COD officials to assure compatible actions are being taken with the specific firms."

#### Recommendation

" establish a maximum task day cost allowable under negotiated contract for various types of call contract services;"

Response

We are including this in the revised Standard Operating Procedures so that proper negotiation will be required. We expect these procedures will be published in the latter part of September 1981.

Recommendation

"direct regional and district offices to follow existing agency procedures for:

- (a) assuring that call contractors are not exceeding SBA subcontracting limits, and (b) obtaining feedback on client satisfaction with services provided by call contractors."

Response

The Agency expects that the new Standard Operating Procedures, reinforced by the new automated Management Information System, which will be operational in early 1982, will fulfill these two recommendations effectively.

Recommendation

- "(2) To establish an effective planning process as a basic and integral part of SBA's 7(j)(10) management strategy, we recommend that the Administrator, SBA, direct the Associate Administrator for the Bureau of Minority Small Business and Capital Ownership Development, to:

Define and prioritize 7(j)(10) program goals and objectives consistent with the program's legislative mandate; the number and needs of program participants; and the availability of 7(j)(10) resources. The 7(j) Committee represents an excellent structure for accomplishing this."

Response

This has already been started with the agency's objective setting and budgeting process.

Recommendations

- "-Develop a written plan describing how program resources will be used. This plan should be compatible with the agency's defined program goals and objectives."

Response

We are now in the process of doing this (see response to prior recommendation), which will be reinforced by Advance Acquisition letters and Regional Operating Plan requirements in FY 1982.

Recommendations

"- Revise the 7(j)(10) standard operating procedures to clarify:

- (a) the criteria and process for the allocation of 7(j)(10) program resources.
- (b) criteria for 7(j)(10) project selection.
- (c) the responsibilities of individuals charged with contract monitoring."

Response

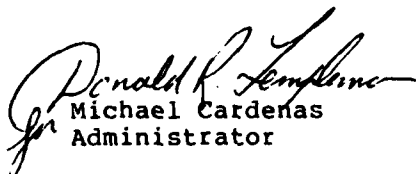
The revised Standard Operating Procedures mentioned previously will address recommendation (a). With respect to recommendation (b) the Small Business Administration is introducing competitive cooperative agreements for 7(j)(10) needs.

Both the new Standard Operating Procedure and the Fiscal Year 1982 Regional Operating Plan will meet the requirements of recommendation (c).

This concludes our comments on the report and we appreciated the opportunity to review the report in draft form.

If you need any further assistance, please advise.

Sincerely,

  
for Michael Cardenas  
Administrator

(077000)